

VZCZCXRO4169
OO RUEHAST RUEHBI RUEHCI RUEHDBU RUEHLH RUEHNEH RUEHPW
DE RUEHNE #2358/01 3241528
ZNR UUUUU ZZH
O 201528Z NOV 09
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8674
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RUCPDO/DEPT OF COMMERCE WASHDC IMMEDIATE
RUEHRC/DEPT OF AGRICULTURE WASHDC
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 03 NEW DELHI 002358

SENSITIVE
SIPDIS

STATE FOR SCA/INSB, EEB/TPP/MTAA/ABT, C-CHUANG
USDOC FOR ITA/MAC DAS HVINEYARD
USDOC FOR 4530/ITA/MAC/OSA/LDROKER/ASTERN
USDA PASS U/S MILLER AND FAS/OCRA/RADLER/BEAN/FERUS
DEPT PASS TO USTR FOR SOUTH ASIA - MDELANEY/CLILIEFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA - MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [EAID](#) [EFIN](#) [ECIN](#) [EINV](#) [SENV](#) [PGOV](#) [IN](#)

SUBJECT: India Wrestles With Food Price Inflation - Plans to Import Rice for the First Time in 20 Years

11. (SBU) Summary: The government of India (GOI) is struggling to contain double-digit food price inflation, while sitting on near-record food grain stocks. An uneven 2009 monsoon that significantly reduced the rice output combined with regressive GOI decisions on grain stocks, support prices and market interventions has led to high food prices. With the common man ("Aam aadmi") being hurt by high food prices, food price inflation will receive prominent play during the ongoing winter session of Parliament. As a result, the GOI is working on emergency plans to address the situation including rice imports and increased restrictions on private trade, which may cause further lag in agricultural sector growth accompanied by a slowdown in private investment. The need to deal with the potentially explosive politics of rising food prices will be a core issue for the Prime Minister when he returns from his U.S. visit. End Summary.

Finance Minister Announces
Rice Imports...

12. (SBU) In a reaction to rising food prices and, in particular, the price of rice, for the first time in 20 years, the Indian government has announced it will import rice on the government's account to bridge the supply/demand gap. Industry and local media sources report the Ministry of Commerce is seeking government-to-government rice deals with both Thailand and Vietnam following the recent rice import tenders by three state trading entities (STE) for a modest 30,000 tons. The tenders were ostensibly to test the market and received high bids. Meanwhile, private southern flour millers, taking advantage of the zero import duty, have reportedly begun importing small quantities of wheat from Australia in containers - despite restrictive quarantine norms - due to the high price of domestic wheat. USDA is currently forecasting that India may import 200,000 tons or more of rice in the coming months, depending on how the price situation develops.

...While the GOI Hoards its
Stocks Resulting in Higher Prices

13. (SBU) Paradoxically, the Indian government is sitting on the highest level of wheat and rice stocks since 2002. Over the past 18 months, the GOI became the major buyer of wheat and rice in India by offering high support prices to farmers, discouraging private participation in grain trade by imposing stock restrictions, and banning exports. This led to a shortage of rice and wheat in the open market and in turn resulted in higher prices. Despite

government wheat stocks totaling close to the combined wheat crops of Australia and Argentina at 28.5 million tons, and rice stocks far exceeding the combined rice stocks of all major rice exporting countries at 15.3 million tons on October 1, 2009, the GOI remains reluctant to release its surplus to ease food price inflation. It is unclear how the government rice imports would help curb the price rise, unless the government makes available grains from its stocks at below-market prices.

Erratic Monsoon, Ongoing Lack of
Cold Chain: Each Have an Impact...

¶4. (U) An uneven distribution of monsoon rains this summer caused India's fall and early winter-harvested ("kharif") crops, including rice, to decline sharply, further exacerbating food inflation. The poor monsoon, together with pest disease in some crops (such as potatoes) also resulted in a significant decline in production of vegetables, fruits and pulses. This decline in production further contributed to food inflationary pressure. Prices of most common vegetables, including potatoes and onions, have risen in recent months causing hardship to rural and urban poorer populations, where it is common for families to spend nearly 50 percent of household budgets on food. India's lack of consolidated cold chains continues to result in significant loss and wastage in perishable food items during hot summers and discourages large-scale imports. Following a significant downturn in sugarcane production last year and this year, sugar production has plummeted and prices have skyrocketed. Drought conditions resulting in reduced fodder availability, combined with high prices of feed grain and oil meals, has led to high domestic prices of milk, poultry, and meat products. Major organized milk vendors such as Amul and Mother Dairy have raised

NEW DELHI 00002358 002 OF 003

retail prices of milk and milk products several times over the past few months. Vegetable oil stands out as the only food item that has not increased in price over the past year, which is likely due to large-scale imports with no import duty.

Sour Opening to Parliament: Sugar
Farmers Protest Changes to
Government's Sugar Pricing Policy

¶5. (SBU) As the winter session of Parliament opened on November 19, multiple farmer organizations descended on the Parliament building to protest the central government's Sugarcane (Control) Amendment, which alters sugar pricing policy by forbidding state governments from setting support prices for sugarcane higher than those already set by the central government. In the past, the state government support price trumped the central government support price, in effect, forcing sugar millers and crushers to pay higher prices to sugarcane farmers. Prohibiting state governments from setting their own prices will likely decrease the amounts paid out to sugarcane farmers, benefiting the millers. Major farm organizations have deemed the government's decision a "black law against farmers," leaving the GOI in the difficult position of having to explain the new policy and the perceived bias against farmers.

Meanwhile, India's Sweet Tooth
Raises Global Sugar Prices

¶6. (SBU) In an attempt to control the escalation of domestic sugar prices, the GOI has taken several measures. Earlier in September, the GOI cracked down on private holders of sugar using the draconian "Essential Commodities Act" to restrict private stocks. The result was an increase in price and a lively shell game of moving sugar stocks across state lines to avoid stocking penalties. The GOI later permitted sugar mills to import raw, unrefined sugar from the global market for refining and distribution within the country. The GOI has also permitted its public sector units (PSUs) to import one million tons of refined sugar at zero duty. Sugar imports in FY 2008/09 are estimated at 2.8 million tons and are forecasted to increase to a record six million tons in MY 2009/10. India's entry into the global sugar market has significantly pushed up world sugar

prices.

GOI's Efforts to Ease Food
Price Inflation

¶7. (U) In order to combat rising food prices, the GOI has taken measures to stabilize prices of commodities in short supply at the present - or at least those facing the greatest price inflation-include vegetables, sugar, pulses (lentils, peas, beans), rice, and wheat. Overall measures taken by the GOI include:

- * Abolishing import duties on rice, wheat, pulses, sugar, and unrefined vegetable oils;
- * allowing imports of raw sugar at zero duty by mills until March 31, 2010;
- * allowing imports of one million tons of refined sugar by PSUs at zero duty until November 30, 2009;
- * banning exports of wheat, non-basmati rice, and most pulses;
- * imposing limits on stocks of rice, pulses, sugar, edible oils, and oilseeds by private traders;
- * imposing minimum export prices on basmati rice and onions;
- * encouraging PSU companies to import and distribute pulses at lower prices by providing a 15 percent subsidy; and
- * banning futures trading in key essential commodities such as wheat and rice.

Comment: GOI's Possible Next Steps

¶9. (SBU) As current food price inflation is largely supply- driven, the GOI will likely make substantial efforts to increase supply through increased production and imports. The zero import duty regime on most essential commodities will also likely continue in the near term. To provide price incentives to farmers, the government will continue to increase support prices. As hoarding, or large-scale speculative stock-holding of commodities, and black

NEW DELHI 00002358 003 OF 003

marketing are considered a partial cause of high domestic food prices, the government may impose further restrictions on private trade. Futures trading in essential commodities will remain banned. Some of these measures, while intended to help control food inflation, may instead backfire, reducing open market availability and resulting in higher open market prices. Too much restriction on private trade could also negatively impact private investment in agriculture, further slowing agricultural growth.

¶10. (SBU) Senior GOI officials have admitted to Emboffs that allowing food prices to rise, particularly for wheat and rice, is part of a strategy to provide farmers (an important strategic vote bank) increased income. While the rise in such prices has perhaps aided wheat and rice producers, the increase of food price inflation into double-digits is bound to have a negative impact on urban consumers as well as those in rural areas not tied to farmer incomes, i.e., landless laborers, subsistence farmers, and those not dependent on the agriculture sector at all. While it remains to be seen if the issue will become politically explosive in the Winter Session of Parliament, if India experiences yet another season of low rice output, the UPA government will have to significantly step up efforts to address the situation.

White